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C O N F I D E N T I A L SECTION 1 OF 4 DACCA 3749

EO 11652: GDS

TAGS: EAID, PFOR, BG

SUBJ: MISSION EVALUATION OF AID'S ANNUAL BUDGET SUBMISSION

SUMMARY. TO HELP THE DEPARTMENT IN ITS CONSIDERATION OF USAID DACCA'S ANNUAL BUDGET SUBMISSION, THIS MESSAGE ADDRESSES OVERALL AID POLICY IN THE CONTEXT OF THE IMPORTANT POLITICAL AND ECONOMIC DEVELOPMENTS WHICH HAVE TAKEN PLACE HERE IN THE PAST SIX MONTHS AND, MORE BROADLY, OF U.S. FOREIGN POLICY INTERESTS IN BANGLADESH. IT ARGUES THAT THESE INTERESTS DO NOT REQUIRE IN CONTINUATION OF THE CURRENT EXTRAORDINARILY HIGH LEVELS OF U.S. ASSISTANCE AND THAT INDEED THESE LEVELS OF AID MAY BE SERVING IN SOME MEASURE AS A DISINCENTIVE TO BANGLADESH'S DEVELOPMENT. IT ARGUES FOR A GRADUAL BUT EVENTUALLY SUBSTANTIAL REDUCTION IN PL-480 FOODGRAIN DELIVERIES, WHILE CONTINUING DEVELOPMENT PROGRAMS AT ABOUT THEIR CURRENT LEVEL. END SUMMARY.

1. THIS ANALYSIS IS DIVIDED INTO THREE PARTS:

(I) A REVIEW OF THE CURRENT POLITICAL, ADMINISTRATIVE, AND ECONOMIC SITUATION IN BANGLADESH;

(II) AN ANALYSIS OF U.S. POLICY INTERESTS AND THEIR IMPLICATIONS FOR U.S. AID;

(III) MISSION COMMENTARY ON USAID'S ANNUAL BUDGET SUBMISSION.

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I. REVIEW OF THE CURRENT SITUATION

2. POLITICAL DEVELOPMENTS. IN THE PAST SIX MONTHS, SHEIKH MUJIBUR RAHMAN HAS TURNED BANGLADESH FROM A FLEDGLING PARLIAMENTARY DEMOCRACY INTO A TOTALITARIAN ONE-PARTY STATE WHICH WEMITS OF NO OPPOSITION OR EVEN CRITICISM OF HIS REGIME. SHEIKH MUJIB HAS DECALRED THAT HIS NEW POLITICAL AND ADMINISTRATIVE SYSTEM IS THE HEART OF A "SECOND REVOLUTION" TO CREATE A "DEMOCRACY OF THE EXPLOITED" IN BANGLADESH. THE PURPOSE OF THE POLITICAL CHANGE SEEMS CLEAR; THE CONSOLIDATION OF MUJIB'S PERSONAL POWER THROUGH COMPLETE CONTROL OVER THE COUNTRY. THE STATE OF EMERGENCY IMPOSEGD AT THE TURN OF THE YEAR PROVIDES THE PRESIDENT WITH SUCH CONTROL, BUT HE IS NOW INSTITUTIONALIZING HIS POWER IN A SERIES OF CONTITUIONAL AND LEGISLATIVE ACTIONS.

3. TO REVIEW, IN JANUARY MUJIB AMENDED THE CONSTITUTION TO ESTABLISH A ABSOLUTE, AUTHORITARIAN PRESIDENCY, REDUCE THE PARLIAMENT TO A CIPHER, GRAVELY WEAKEN THE COURTS, AND PREPARE THE WAY FOR THE THE ENDNZKHE MULTI-PARTY SYSTEM. IN FEBRUARY ALL POLITICAL PARTIES WERE ABOLISHED AND THE BANGLADESH KRISHAK SRAMIK AWAMI LEAGUE (BAKSAL) WAS ESTABLISHED AS THE ONLY PARTY IN THE COUNTRY. IN JUNE THE ALREADY FEEBLE FREE PRESS WAS DESTROYED. IN JUNE ALSO, MUJIB FINALLY ONNNOUNCED THE LEADERSHIP OF BAKSAL AND PROMULGATED A PRTY CONSTITUTION THROUGH WHICH BAKSAL CAN DOMINATE ALL PHASES OF ORGANIZED LIFE IN BANGLADESH AND EXERCISE TOTAL CONTROL OVER ITS MEMBERS. THE PARTY, LED BY A SMALL GROUP OF MUJIB'S CLOSET ASSOCIATES WITH THE LEFTISH ELEMENT APPARENTLY DOMINANT AT PRESENT, IS NOW SUPREME IN BANGLADESH.

4. THE NEW ADMINISTRATION. FOR THREE YEARS MUJIB HAS COMPLAINED ABOUT INADEQUANCY AND UNRESPONSIVENESS OF THE INHERITED COLONIAL ADMINISTATION OF BANGLADESH. HAVING SUPPRESSED ALL LEGITIMATE OPPOSITION POLITICAL ACTIVITY, MUJIB HAS NOW TURNED HIS ATTENTION TO REVISING THE ENTIRE STRUCTION OF GOVERNMENT IN THE COUNTRY TO BRING IT FIRMLY UNDER HIS AND BAKSAL'S CONTROL (SEE DACCA 3155). THE 61 GOVERNORS OF THE NEW DISTRICTS, PRIMARILY POLITICIANS, ARE NOW IN TRAINING FOR THE JOBS THEY WILL UNDERTAKE SEPTEMBER

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ONE. MUJIB ALSO PLANS TO CHANGE THE THANA-LEVEL ADMINSTRA-TION WITHIN THE YEAR TO SIMILAR SYSTEM DOMINATED BY THE PARTY AND TO REVISE AND DECENTRALIZE THE JUDICIARY SYSTEM. WE ALSO EXPECT CHANGEY IN THE MINISTRY LEVEL TO ACCOMMODATE THE NEW SYSTEM. IN ADDITION, MUJIB SEEMS SERIOUS ABOUT INSTITUTING COMPULSORY VILLAGE COOPERATIVES, BEGINNING IN A LIMITED EXPERIMENTAL FASHION THIS YEAR.

5. MUJIB HAS VALID CAUSE TO COMPLAIN THAT THE OLD SYSTEM OF GOVERNMENT AT TIMES WAS UNRESPONSIVE TO THE NEEDS OF THE PEOPLE, FOSTERED BUREAUCRATIC IRRSPONSIBILITY, AND THROUGH EXTENSIVE RED TAPE DELAYED THE IMPLEMENTATION OF PROGRAMS. YET HE IS INSTITUTING THE NEW DISTRICT SYSTEM NATIONWIDE SO RAPIDLY AND WITH SO LITTLE PLANNING THAT IT CANNOT FAIL TO DISRUPT THZMADMINSTRATION OF THE COUNTRY AT LEAST FOR THE SHORT TERM. MORE THAN THREE-QUARTERS OF THE NEW GOVERNORS ARE WITHOUT ADMINISTRATIVE EXPERIENCE AND VARY CONSIDERABLY IN THEIR REPUTATIONS FOR COMPETENCE AND INTEGRITY; THEIR SECONDS IN COMMAND (DISTRICT MAGISTATES WHO WILL DE DRAWN FROM THE RANKS OF THE PRESENT ADDITIONAL DISTRICT COMMISSIONERS) HAVE ONLY NOW BEEN SELECTED. ALTHOUGH EACH GOVERNOR HAS BEEN GIVEN AUTHORITY OVERALL GOVERNMENT REPRESENTATIVES IN HIS DISTRICT, INCLUDING SECURITY FORCES, NO INSTRUCTIONS HAVE BEEN GIVEN TO COORDINATE THE ROLES OF THE GOVERNORS AND THE CENTRAL MINISTRIES IN THE PLANNING AND ALLOCATION OF RESOURCES. BY SETTING UP A BAKSAL-DOMINATED ADMINISITRATIVE COUNCIL AND DIRECTING THE GOVERNORS TO ACT FULLY IN CONSERST WITH LOCAL BAKSAL SECRETARIES, MUJIB APPEARS TO HAVE SET A WATCH ON THE GOVERNORS THAT CAN ONLY COMPOUND THEIR DIFFICULT IN ASSERTING AUTHORITY OVER THEIR ERSTWHILE POLITICAL PEERS. THUS, WHILE A PRINCIPAL STATED AIM OF THE NEW SYSTEM IS TO WIPE OUT CORRUPTION, THIS HEAVY POLITICIZATION OF LOCAL ADMINISTATION MAY COMPOUND EVEN MORE THE INFLUENCE PEDDLING AND FAVORITISM THAT HAS RESULTED IN THE UNEQUAL DELIVERY OF SERIVCES TO THE FARMERS. MOREOVER, BY PUTTING THE POLITICIANS IN CHARGE AND EMPHASIZING THAT THE PARTY IS PARAMOUNT, MUJIB HAS THROWN THE BUREAUCRACY INTO DISARRAY AS CIVIL SERVANTS, UNCERTAIN OF THEIR FUTURE ROLES, ARE EITHER RUSHING TO JOIN THE PARTY OR ARE LYING LOW, AVOIDING DECISION-MAKING THAT MAY OFFEND THE

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6. CURRENT ECONOMIC SITUATION. IN CONTRAST TO THE STRONGLY DISCOURAGING POLITICAL TREND, RECENT ECONOMIC DEVELOPMENTS HAVE BEEN MODERATELY ENCOURAGING ALTHOUGH THE UNDERLYING ECONOMIC SITUATION REMAINS GRIM. OVER THE PAST YEAR, DONORS HAVE URGED BANGLADESH TOWARD AN ACCORD WITH THE IMF, REACHED IN MAY, ON A STABILIZATION PROGRAM WHICH HAS INCLUDED DEVALUATION OF THE TAKA AND COMMITS THE BDG TO CONTINUED CREDIT RESTRAINT, IMPORT LIBERALIZATION AND REMOVAL OR REDUCTION OF FOODGRAIN SUBSIDIES. TO DATE, THE BDG HAS ADOPTED ALL THESE ELEMENTS EXCEPT REDUCTION OF SUCH SUBSIDIES, ON WHICH A DECISION IT PROMISED DURING THE CURRENT FISCAL YEAR. THE SUCCESSFUL IMPLEMENTATION OF THIS PROGRAM, TOGETHER WITH FOREIGN ASSISTANCE, IS EXPECTED TO INCREASE BDG REVENUES AVAILABLE TO FINANCE DEVELOPMENT EXPENDITURES. ITS IMMEDIATE BENEFITS ARE FOCUSED PRIMARILY ON THE ORGANIZED SECTOR OF THE ECONOMY AND ONLY THE EFFICIENT IMPLEMENTATION OF WELL SELECTED DEVELOPMENT PROJECTS, FINANCED BY THE ENHANCED BDG REVENUES, WILL TRANSMIT THESE BENEFITS TO THE RURAL/AGRICULTURAL SECTOR.

7. AND THE MASSIVE DEVELOPMENT PROBLEMS REMAIN. BANGLADESHIS ARE UNDERNOURISHED AND MALNOURISHED AND PER ACRE YIELDS REMAIN THE LOWEST IN THE WORLD; YET THE BDG HAS FAILED TO DEVOTE ADEQUATE ENERGY AND RESOURCES TO THE AGRICULTURAL SECTOR. IMPORT REQUIREMENTS EXCEED EXPORT EARNINGS THREEFOLD AND
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IMPORTS ARE STAGNANT, HIGHLY DEPENDENT ON A SINGLE COMMODITY: JUTE--RAW AND MANUFACTURED--THE PRODUCTION AND EXPORT SALES OF WHICH ARE DECLINING. INFLATION, WHICH REACHED AN ESTIMATED ANNUAL RATE OF 75 PERCENT IN CY-1974, HAS BEEN CHECKED IN LINE WITH THE STABILIZATION PROGRAM, BUT BY LIMITING DEMAND BY REDUCING THE MONEY SUPPLY AND RESTRICTING CREDIT, NOT BY EXPANDING OUTPUT AND SUPPLIES. SIMILARLY, THE IMPRESSIVE FY-75 BUILDUP IN FOREIGN EXCHANGE

RESERVES HAS BEEN ACHIEVED BY EXTREME IMPORT RESTRAINT, NOT EXPORT GROWTH. CORRUPTION REMAINS RAMPANT AND SHEIKH MUJIB HAS NOT MOVED TO CURB IT AT HIGH LEVELS, AN ACTION WHICH WOULD BEGIN TO CONVINCE THE PUBLIC OF HIS SINCERITY AND RESTORE CONFIDENCE IN THE GOVERNMENT.

8. IN SUM, THE BDG HAS SET THE FISCAL AND MONETARY STAGE FOR THE SHIFT FROM RELIEF TO DEVELOPMENT AND WHILE THE REMOVAL OF SUBSIDIES DURING FY-76 AND A BROADENING OF THE TAX BASE IN THE FY-77 BUDGET REMAIN NECESSARY FURTHER STEPS, THE MAIN TASK IS TO TRANSLATE THE FINANCIAL BENEFITS OF THE ECONOMIC POLICIES NOW ADOPTED INTO EFFECTIVE DEVELOPMENT PROGRAMS. TO DO THIS, TWO THINGS ARE REQUIRED: NOT ONLY CONTINUED DONOR SUPPORT BUT ALSO A CLEAR RECOGNITION BY THE BDG, REFLECTED IN CONCRETE ACTIONS, OF THE PRIMARY IMPORTANCE OF INCREASING AGRICULTURAL PRODUCTION AND CURTAILING POPULATION GROWTH. TO DATE, DEVELOPMENT EFFORTS HAVE FOCUSED ONLY INSUFFICIENT RESOURCES, ABOUT ONE-THIRD IN FY-74, 75 AND 76, ON THIS SECTOR. PLANNING AND THE USE OF SCARCE RESOURCES HAVE BEEN SKEWED IN FAVOR OF THE URBAN CONSUMER AND THE ORGANIZED SECTOR OF THE ECONOMY.

II. U.S. POLICY INTERESTS AND IMPLICATIONS FOR U.S. AID

9. WE HAVE ONLY A MARGINAL POLITICAL INTEREST IN BANGLADESH AND LITTLE ECONOMIC INTEREST. WE SEE BANGLADESH AS PART OF A SUBCONTINENT WHICH WE BELIEVE MUST BE STABLE AND DEVELOPING IF SOUTH ASIA IS NOT, THROUGH INTRAREGIONAL CONFLICT, TO THREATEN NEIGHBORING AREAS OF GREATER STRATEGIC VALUE TO THE UNITED STATES OR RISK GREAT POWER CONFRONTATION. THUS WE HAVE CONSIDERED IT IN OUR INTERESTS TO PROMOTE THE ECONOMIC DEVELOPMENT OF BANGLADESH. YET OUR ASSISTANCE TO BANGLADESH SINCE INDEPENDENCE HAS GREATLY EXCEEDED ANY LEVEL
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SUGGESTED BY OUR POLITICAL INTERESTS. IMMEDIATELY AFTER INDEPENDENCE OUR VERY HIGH AID LEVELS REFLECTED A WIDELY FELT SENSE OF HUMANITARIAN RESPONSIBILITY TO HELP A DESPERATELY POOR NATION RECOVER FROM THE EFFECTS OF A DEVASTATING WAR. NEXT CAME A SERIES OF CRISES--OIL PRICE RISE, FLOOD--DEALING THE LONG HOPED FOR SHIFT FROM RELIEF TO DEVELOPMENT, AND FINALLY FOR FY-76 WE ACKNOWLEDGE A CLEAR OBLIGATION TO ASSIST A GOVERNMENT WHICH HAD TAKEN IMPORTANT ECONOMIC POLICY DECISIONS URGED, AMONG MANY OTHERS, BY US.

10. HOWEVER, IF WE HAVE PROVIDED MORE AID THAN OUR INTERESTS WARRANTED IN THE PAST, THERE WILL BE LESS NEED OR JUSTIFICATION FOR DOING SO FOR A REGIME WHICH HAS TURNED SO SHARPLY AWAY FROM DEMOCRATIC VALUES; WHICH HAS YET TO MOVE FROM RHETORIC

TO AN EFFECTIVE ECONOMIC PLAN FOR INCREASING AGRICULTURAL PRODUCTION AND IMPROVING THE LOT OF THE RURAL POOR; AND WHICH, BECUASE OF RAMPANT CORRUPTION AND THE LACK OF SELF-WILL, REMAINS A COMPARATIVELY UNPROMISING OBJECT OF INVESTMENT. INDEED, OUR INCREASED LEVEL OF ASSISTANCE HAS LED SOME BANGALEES TO ASK IF IT IS A CONTRIBUTION BY THE UNITED STATES TO MUJIB'S RETENTION OF POWER. MOREOVER, A GOOD CASE CAN BE MADE THAT THE BDG'S RELIANCE ON MASSIVE CONTRIBUTIONS OF FOOD FROM ABROAD IS SERVING TO INHIBIT THE EFFORTS WHICH IT SHOULD BE MAKING TO STAND MORE ON ITS OWN FEET. THUS, WHILE CONTINUING TO RESPOND TO GENUINE APPEALS FOR RELIEF IN THIS DISASTER-PRONE COUNTRY AND FOR FOOD-GRAINS TO HELP AVOID STARVATION, WE MAY WISH TO GRADUALLY BRING ABOUT A SUBSTANTIAL REDUCTION IN THE CURRENT EXTRA-ORDINARILY HIGH LEVEL OF U.S. CONCESSIONAL FOODGRAIN ASSISTANCE TO BANGLADESH, WQILE CONTINUING OUR DEVELOPMENT PROGRAMS AT ABOUT THEIR CURRENT LEVEL. SUCH REDUCTION SHOULD NOT BE SEEN AS LEVERAGE TO EFFECT POLITICAL CHANGE HERE, WHICH IS BEYOND OUR ABILITY IN ANY CASE, BUT RATHER IN PART AS A RECOGNITION THAT THERE IS NO REASON TO CONTINUE TO ACCORD BANGLADESH THE EXCEPTIONALLY FAVORED STATUS IT HAS ENJOYED FROM US SL FAR AND THAT THE CHANGE IN THE COMPOSITON OF OUR AID PROGRAM WOULD IN FACT HAVE A BENEFICIAL LONG-RANGE EFFECT ON BANGLADESH'S OWN DEVELOPMENT.

LCII. ANNUAL BUDGET SUBMISSION

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11. THIS BRINGS US TO CONSIDER, IN THE LIGHT OF THE FOREGOING POLICY GENERALIZATIONS, THE PROGRAM RECOMMENDED BY USAID IN ITS RECENT ANNUAL BUDGET SUBMISSION. THE COUNTRY TEAM HAS REVIEWED THE PROPOSED BUDGET AND OFFERS THE FOLLOWING COMMENTS ON ITS MAIN ELEMENTS: 1) BASIC THRUST; 2) RESEARCH PROJECTS; 3) NEW DEVELOPMENT LOAN PROJECTS; 4) TITLE I FOODGRAIN ALLOCATIONS; 5) TITLE II FOODGRAIN ALLOCATIONS FOR DVOD FOR WORK PROJECTS; AND 6) POPULATION CONTROL PROGRAMS.

12. BASIC THRUST. THE COUNTRY TEAM ENDORSES THE BASIC THRUST OF THE FY-77 BUDGET. PURSUANT TO THE STRATEGY OUTLINED IN THE DEVELOPMENT ASSISTANCE PROGRAM (DAP) CALLING FOR PRIMARY EMPHASIS ON BROAD-BASED AGRICULTURAL DEVELOPMENT, INCLUDING GREATLY EXPANDED USE OF INPUTS, THE BUDGET SUBMISSION CONCENTRATES PREDOMINANTLY IN THIS AREA APART FROM ESSENTIAL SUPPORTING PROGRAMS IN POPULATION CONTROL AND FEEDING PROGRAMS TO REACH THE VERY POOR. THIS STRATEGY IS SOUND SINCE THE IMMEDIATE NEED REMAINS INCREASED AGRICULTURAL PRODUCTION; SINCE MOST BANGALEES LIVE AND WORK IN RURAL AREAS AND HENCE WOULD BENEFIT; AND, SINCE AGRICULTURE ACCOUNTS FOR 60 PERCENT OF BANGLADESH'S GDP, ANY INCREASE IN

OVERALL GDP MUST INCLUDE AGRICULTURAL GROWTH.

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13. WE DO NOTE TWO IMPORTANT DIFFICULTIES WHICH WILL SLOW PROGRESS IN IMPLEMENTING THIS STRATEGY. THE FIRST IS THAT THE BDG INSUFFICIENTLY SHARES OUR VIEW OF ITS PRIORITIES. THE FIVE-YEAR PLAN AND FY-75 AND 76 ADP DEVOTE ABOUT ONE THIRD OF TOTAL INVESTMENT TO AGRICULTURE, FLOOD CONTROL, RURAL DEVELOPMENT AND NUTRITION, AN UNDERINVESTMENT AS VIEWED IN OUR DEVELOPMENT ASSISTANCE PAPER (DAP). MOREOVER, WE SEE A MAJOR PROBLEM WITH RESPECT TO THE BDG'S STATE-OPERATED SYSTEM FOR THE DISTRIBUTION OF INPUTS TO AGRICULTURE, A SYSTEM WHICH HAS NOT WORKUED WELL HERE IN THE PAST (OR INDEED ANYWHERE IN SOUTH ASIA) AND MAY BE ADVERSELY AFFECTED BY THE RECENT REDISTRICTING ORDER WHICH CAN ONLY INCREASE THE POLITICIZATION OF DEVELOPMENT FLOWS TO RURAL AREAS. AND THIS MAY BE FURTHER AGGRAVATED BY THE DEVELOPMENT OF THE COMPULSARY COOPERATIVES WHICH WILL ALSO BRING GREATER STATE CONTROL. TO IDENTIFY THESE DIFFICULTIES IS NOT TO NEGATE THE VALIDITY OF USAID'S APPROACH BUT IT DOES SUGGEST RESTRAIN IN ESTIMATING THE RATE OF SUCCESS AHEAD AND UNDERSCORES THE NEED TO PERSUADE THE BANGLADESH GOVERNMENT THAT IT SHOULD DEVOTE MORE ATTENTION AND MORE OF ITS RESOURCES TO THE AGRICULTURAL SECTOR, INCLUDING PRICE INCENTIVES, AND EQUALLY IMPORTALT, THAT IT MUST ENSURE AN EFFECTIVE SYSTEM FOR DISTRIBUTION OF AGRICULTURAL INPUTS. WE DO NOT SEE SIGNS THAT THE REQUIRED EFFORT IS BEING MADE.

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14. RESEARCH PROJECTS. WE ALSO GENERALLY SUPPORT THE RESEARCH PROJECTS WITH THE FOLLOWING CAVEATS. THE PROJECT ON NON-FORMAL EDUCATION STRIKES US AS SO ESOTERIC AND MARGINAL TO OUR MAIN INTEREST THAT WE QUESTION WHETHER IT SHOULD BE PURSUED. WE ALSO BELIEVE THAT THE PROJECT ON MARKET TOWN GROWTH DESERVES THE LOW PRIORITY GIVEN IT BY ITS RANK ORDER IN USAID'S LISTING. WHILE THE PROJECT FOR LAND TENURE RESEARCH IS INHERENTLY SOUND, THERE IS A QUESTION IN OUR MINDS WHETHER THIS PROJECT SHOULD NOT BE DEFERRED UNTIL WE HAVE A CLEARER PICTURE OF THE RURAL ADMINISTRATIVE CHANGES THAT HAVE NOW BEEN LAUNCHED AND THE LAND MANAGEMENT ASPECTS OF THE NEW COOPERATIVES.

15. NEW DEVELOPMENT BAZON PROJECTS. IN THIS SECTION OF USAID'S

BUDGET

THE SUBMISSION WAS INTENDED TO PROVIDE AN INVENTORY OF POSSIBLE DEVELOPMENT LOAN PROJECTS, THE ULTIMATE CHOICE AMONG THEM DEPENDING NOT ONLY ON WASHINGTON'S VIEW OF THEIR SUITABILITY AND THE LEVEL OF APPROPRIATIONS AVAILABLE TO FINANCE THEM, BUT ALSO ON THE RESULTS OF ONGOING INVESTIGATIONS HERE WITH THE BUDGET OF THE FEASIBILITY OF SOME OF THE PROJECTS. THUS, WHILE THE TOTAL COST OF ALL THE LISTED PROJECTS WOULD BE \$200 MILLION, IT IS ASSUMED HERE THAT THE ACTUAL COST OF THE PROJECTS EVENTUALLY AGREED UPON FOR IMPLEMENTATION WOULD PROBABLY BE ROUGHLY AT THE EXISTING LEVEL OF OUR DEVELOPMENT PROGRAMS--I.E., ABOUT \$60 MILLION.

16. SINCE THE DETAILED DESCRIPTIONS OF ALL BUT ONE OF THESE PROJECTS HAVE NOT YET BEEN DEVELOPED, WE ARE UNABLE TO COMMENT ON THEM VERY USEFULLY EXCEPT TO NOTE THAT ALL PROJECTS ARE DIRECTED TOWARD AGRICULTURAL DEVELOPMENT AND CONSEQUENTLY CONFORM WITH OUR AGREED STRATEGY. THE ONE PROJECT FOR WHICH WE HAVE A SUMMARY DESCRIPTION IS THE KURIGRAM FLOOD CONTROL PROJECT WHICH LOOKS PROMISING AS IT SHOULD CONTRIBUTE TO INCREASED FOOD PRODUCTION IN THE NEGLECTED AREA OF NORTHWEST BANGLADESH. WE ARE, HOWEVER, IMPRESSED BY THE TECHNICAL DIFFICULTIES INVOLVED

THIS PROJECT AND WE SHARE THE CONCERN, EXPRESSED IN USAID'S DESCRIPTION OF THE PROJECT, ABOUT THE BUDGET'S CAPABILITY TO PLAN AND IMPLEMENT AN

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UNDERTAKING OF THIS SCALE AHU COMPLEXITY, WHICH SUGGESTS THAT WE SHOULD PROCEED WITH CAUTION AS WE EXPLORE THIS PROJECT WITH THE BDG.

17. WHILE THERE IS NO DETAILED DESCRIPTION YET OF THE AGRICULTURAL DEVELOPMENT LOAN, IT DOES REPRESENT A CONTINUATION OF ONGOING PROJECTS WHICH WE AGREE DESERVE TO BE CONTINUED. WE NOTE THAT THE SUCCESS OF THESE LOANS IS HIGHLY DEPENDENT ON EFFICIENT SYSTEMS OF DISTRIBUTION AND THAT THESE SYSTEMS ARE TO BE STUDIED AS A PART OF THE ASHUGANJ FERTILIZER LOAN AND IN A PROPOSED AID-FINANCED PESTICIDE MARKETING RESEARCH STUDY. WE HAVE RESERVATIONS ABOUT THE WISDOM OF DEEO USG INVOLVEMENT IN BANGLADESH'S DISTRIBUTION NIGHTMARE AND URGE THAT WHATEVER IS DONE IN FY-UY UNDER THE IMPORTANT NEW SET OF CRITECDQMCMATNMJYJF RGWDVTEPREN

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AT RESOLVING THE CONFLICTING GOALS OF PROVIDING AS8 5-;3 : 5#8S KEY AREA, MAINTAININ&))92 7.S. INVOLVEMENT, AND PROMOTING EFFICIENT DISTRIBUTION. WE ALSO NOTE THAT OTHER DONORS HAVE PLEDGED THIPROVIDER FERTILIZER AND THIS MAY EVENTUALLY PERMIT A REDUCED U.S. LOAN COMMCHMENT.

18. PL-480 TITLE I. RECENT U.S. ASSISTANCE TO BANGLADESH HS CONSISTED PREDOMINANTLY OF FOOD AID.(./ *6-75 OUR PL-480 TITLE I PROGRAM ACCOUNTED FOR 75 PERCAKT OF TOTAL NEW COMMITMENTS. BUT THIS FOOD CONTRIBUTES LITTLE TO DEVELOPMENT AND INDEED PROBABLY ACTS AS A DISINCENTIVE BY ALLOWING THE BDG TO AVOID TACKLING THE TASQUOF INCREASING ITS OWN AGRICULTURAL PRODUCTION AND, WITHIN TGAT TASK, TO AVOID FACING UP TO THI ISSUE OF EFFICIENTLY DELIVBCING INPUTS TO FARMERS. IT CAN ALSO BE CRITICIZED ON THE GROUNDS THAT IT IS USED TO FEED, AT SUBSIDIZED PRICES, URBAN, RELATIVEG 23))OFF GOVERNMENT WORKERS AND OTHERS ENJOYIMG JOB SECURITY, BUT FEW PEOP A WHO FACE STARVMZION; THAT IT STR NGTHENS THE BDG'S RELIANCE ON A CORRUPT AND INDULGENT RATIONNIYSYSTEM WHICH, OVER TIME, REDUCES THE SCOPE CONFIDENTIAL

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OF MAGQT FORCES AND THE PRIVATSISEEV94; AND THAT T DELUDES BANGLADESH INTO BELIEVING THAT THEY CAN COUNT ON U.S. HALP INDEFINITELY TO MEET FOOD SHORTFALLS. ACCORDINGLY, A GRABQOUAL REDUCTION IN THE LEVLES OF PL-480 TITLE I FOOD-GRAIN DELIVERIES APPEARS TO BE INGZHE INTEREST OF BOTH THE UNITED STATES AND BANGLADESH.

19. OUR PROGRAM FOR FY-77 PLEDGED AT THE PARIS AID GROUP MEETING AT THE LEVEL OF 850,000 TONS, IS ALREADY SET SO THAT OUR FIRST OPPORTUNITY TO ADJUST OUR AID PROGRAM WOULD BE IN FY-77. THE USAID BUDGET SUBMISSION PROVIDES FOR A MODEST REDUCTION IN FODGRAIN DELIVERIES FOR 1977 BUT MORE THAN COMPENSATES FOR THIS REDUCTION BY INCREASING THE DELIVERIES OF OTHER PL-480 TITLE I COMMODITIES (COTTON AND TIWLOW) SO THAT PL-480 TOTALS ACTUALLY INCREASE FROM \$203.4 MILLION IN FY-76 TO \$206.8 MILLION IN FY-77. THUS, UNDER THESE ALLOCATIONS BANGLADESH WOULD RECEIVE NOT OVER 700,000 TONS UNDER TITLE I AND 900,000 TONS UNDER TITLE II, APPROXIMATELY THE SAME TOTAL VOLUME AS IN FY-75 AND FY-76, BUT A SUBSTANTIALLY LARGER AMOUNT OF OTHER PL-480 COMMODITIES. FOR THE REASONS SET FORTH ABOVE, WE BELIEVE THESE FIGURES ARE TOO HIGH AND THAT A REDUCTION SHOULD BE MADE IN THE TOTAL ALLOCATIONS. WE NOTE IN THIS CONNECTION THAT IF THIS LEVEL OF PL-480 DELIVERIES WERE TO BE MAINTAINED IN FY-77, THE TOTAL ANNUAL COST OF OUR AID WOULD STILL BE NEAR THE \$300 MILLION RANGE -- THAT IS, VERY CLOSE TO THIS YEAR'S EXTRAORDINARY LEVEL AND NEARLY QUADRUPLE THE LEVEL OF OUR 1974 ASSISTANCE..

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20. PL-480 TITLE II. FOODGRAIN ALLOCATIONS. USIAD HAS PROJECTED A PROGRAM IN FY-76 FOR THE USE OF 50,00 TONS OF PL-480 TITLE II FOODGRAINS FOR NEW FOOD FOR WORK PROJECTS HVAND HAS PROJECTED AN INCREASE TO 1005000 TONS IN 1977 FOR THIS PURPOSE. WE SHARE HIS RESERVATIONS ABOUT THE DEGREE TO WHICH WE MAY BE DRAWN BY THIS PROGRAM INTO THE BDG'S INTERNAL ADMINISTRATION AND ALSO BY THE THE DEGREE TO WHICH WE WOULD BE CARRYING OUT DOMESTIC PROGRAMS WHICH ARE PROPERLY THE RESPONSIBILITY OF TH BDG. WE ARE ALSO CONCERNED ABOUT THE RISK THAT THESE PROJECTS COULD DETERIDRATE INTO INEFFECTIVE PATRONAGE FLOWS AND ISAPPROPRIATION (ALTHOUGH WE NOTE THAT THE BDG IS CONTRACTI G WITH CARE TO IMPROVE THE MANAGEMENT OF ITS FOOD LOGISTICS AND DISTRIBUTION SYSTEM FOR FOOD FOR WORK ACTIVITIES.) NEVERTHELESS, WE RECOGNIZE THAT THIS PROGRAM RESPONDS TO AN IMPORTANT CONGRESSIONAL MANDATE AND THAT THE HUMANITARIAN BENEFITS FO THE PROGRAM IS REACHING THE VERY POOR MAY BE VERY HIGH IF THE PROGRAM IS PROPERLY ADMINISTERED. WE THEREFORE ENDORSE THIS PROJECT IN PRINCIPLE BUT BELIEVE OUR EXPERIENCE IN 1976 SHOULD BE EVALUATED CAREFULLY BEFORE WE COMMIT OURSELVES TO A LARGER PROGRAM.

21. POPULATION CONTROL. WE ENDORSE THE PROVISIONS OF USAID'S BUDGET SUBMISSIRC ON FAMILY PLANNING. THE BDG HAS SHOWN ENCOURAGING SIGNS OF MOVEMRNT IN THIS AREA
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DURING THE PAST YEAR AND WE SHOULD CONTINUE TO SUPPORT AND ENCOURGE THESE EFFORTS AS WE CAN.
BOSTER

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